

Department of Technology Services Mid-Year Rate Proposal

Observations:

- The rate package is not consistent with the approved methodology. While the **Network rates** generally appear to follow the approved methodology, the **CPU rates** are not, nor do they reflect a truing-up of the rates with actual costs. Instead, it is proposed to reduce rates by 25 percent to reduce but not eliminate projected over-collections. The **third component** also is not based on the approved methodology, but proposes to standardize rates for similar services that had different rate structures prior to consolidation.
- There are many services not covered by this rate proposal.
- The rate package includes policy choices that are not clearly identified and documented. However, Finance does not have any concerns with those that have been described verbally.
- These rates continue subsidies.
- The budgetary impact in total and on individual departments is not known because departments are likely to change their use of network services to help keep costs down.

Recommendations:

- We recommend that the Board adopt these rates as an interim step that reduces costs to most departments, with the understanding that they are a partial fix, and not the real truing-up of rates that has been expressed as a goal in the past.
- We also note that the budgeting consequences will have to be addressed and could be affected by the Administration's desire to keep the state's operating deficit at zero.
- In order to fully understand the macro picture and address any negative impacts, the next package should reflect the approved rate methodology applied to the entire portfolio of existing services, with clearly identified and articulated policy choices and a comparison with other market rates to provide a benchmark for the state rates. In addition, the package needs to identify the impact the rates will have on aggregate departmental revenues, expenditures, and the DTS revolving fund. This product may take more time to build and review than previously anticipated.